

## **LABOR AND WORKFORCE DEVELOPMENT**

The Labor and Workforce Development Agency was established to address issues relating to California workers and their employers. A leading Agency goal is to better serve workers and employers by coordinating services and programs in an efficient, effective manner that is relevant to current and future economic conditions. The Agency is primarily responsible for three functions: labor law enforcement; workforce development; and, benefit payment and adjudication. The Agency plays a central role in the Economic and Employment Enforcement Coalition, the purpose of which is to help legitimate businesses and California workers combat the underground economy, through a combination of enforcement and education activities.

Departments within the Agency include the Employment Development Department (EDD), the Department of Industrial Relations, the California Workforce Investment Board, and the Agricultural Labor Relations Board. With the exception of the Employment Development Department, none of these entities had significant adjustments included in the Governor's Budget. The Budget includes total funding of \$26.4 billion (\$413.5 million General Fund, \$26 billion various other funds) for these entities.

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### **EMPLOYMENT DEVELOPMENT DEPARTMENT**

The EDD administers the Unemployment Insurance (UI), Disability Insurance (DI) and Paid Family Leave programs and collects payroll taxes from employers, including the Personal Income Tax. The EDD connects job seekers with employers through a variety of job services programs and at one-stop service centers, and provides employment training

programs through the Employment Training Panel and the Workforce Investment Act of 1998. The Budget includes \$26 billion (\$385.2 million General Fund) and 10,208 positions to support the EDD programs.

### **UNEMPLOYMENT INSURANCE PROGRAM**

The UI program is a federal-state program that provides weekly UI payments to eligible workers who lose their jobs through no fault of their own. Benefits range from \$40 to \$450 per week depending on the earnings during a 12-month base period, with a current average of \$313 per week during 2010. To be eligible, an applicant must have received enough wages during the base period to establish a claim; be totally or partially unemployed; be unemployed through no fault of his or her own; be physically able to work; be seeking work; be immediately available to accept work; and, meet eligibility requirements for each week of benefits claimed. The Budget includes \$18.4 billion for unemployment benefit payments.

The UI program benefits are financed by employers who pay state unemployment taxes, ranging between 1.5 and 6.2 percent, on the first \$7,000 in wages paid to each employee in a calendar year. Employers responsible for a high number of unemployment claims pay the highest tax rate. The maximum UI tax an employer can pay per employee is \$434 per year, whereas an unemployed individual could collect up to \$11,700 in benefits that same year. Estimated receipts in calendar year 2011 are \$5.2 billion, including contributions from employers to support unemployment benefits.

Beginning in January 2009, the state's UI Fund was exhausted due to an imbalance between the benefit payments and annual employer contributions. To make UI benefit payments without interruption, the EDD began borrowing funds from the Federal Unemployment Account to pay benefits to an increasing number of unemployed claimants. At the end of 2009, the UI Fund had a projected deficit of \$6.2 billion. Based on EDD's October 2010 UI benefit estimates, this deficit is expected to increase to \$10.3 billion at the end of 2010 and, \$13.4 billion at the end of 2011.

While annual interest payments were waived under the American Recovery and Reinvestment Act for 2010, interest totaling \$362.3 million is due and payable in September 2011. According to federal law, this interest payment must come from state funds. Interest will continue to accrue and be payable annually until the principal on the UI loan is repaid.

The significant General Fund workload adjustments are as follows:

- Unemployment Insurance Interest Payment—An increase of \$362.3 million in 2011-12 to make an interest payment on funds borrowed from the federal government to pay California's UI benefits.
- Automated Collection Enhancement System—The Budget includes \$19.5 million General Fund for continuation of the EDD's Automated Collection Enhancement System (ACES). The ACES will improve EDD's ability to track, collect, and audit the payment of employer payroll taxes, including unemployment and personal income taxes. The ACES solution is anticipated to increase General fund revenue by \$27 million in 2011-12 by improving collection capabilities for delinquent accounts.

The significant General Fund solution is:

- Offset Unemployment Interest Payment—The Budget authorizes a loan from the Unemployment Compensation Disability Fund to the General Fund to pay for the UI interest expense. The loan will be repaid by the General fund over the next four fiscal years. This achieves a General Fund savings of \$362.3 million in 2011-12.

### **DISABILITY INSURANCE PROGRAM**

The DI program provides partial wage replacement to eligible workers who are unable to work because of a disability. Disability is defined as any mental or physical illness or injury that prevents an employee from performing their regular or customary work. Benefits range from \$50 to \$987 per week depending on an individual's earnings in the base period calendar quarter. An individual's weekly benefit amount is approximately 55 percent of his or her earnings up to the maximum weekly benefit amount.

The Governor's Budget includes \$5.3 billion for disability benefit payments.

The DI program is financed by employees who pay a sliding rate that is calculated annually depending upon the balance in the DI fund. The 2010 rate is 1.1 percent of the wages, up to a maximum \$93,316, earned by each employee. The maximum amount an employee can pay into the DI fund is \$1,026 per year. The Budget estimates \$5.7 billion in revenue from employees to support disability benefits.

The significant Non-General Fund workload adjustment is:

- October Revise—Estimates for the payment of UI and DI benefits are updated two times each year in October and April. The Budget reflects a decrease of \$171.2 million in 2011-12 for DI benefit payments and does not change the estimate for UI benefit payments.

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